

This record is a partial extract of the original cable. The full text of the original cable is not available.

011432Z Oct 03

UNCLAS ANKARA 006162

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD AND EUR/SE  
TREASURY FOR OASIA - LOEVINGER, MILLS AND LEICHTER  
NSC FOR BRYZA AND MCKIBBEN

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [TU](#)

SUBJECT: IMF MISSION BEGINS TALKS

REF: ANKARA 6141

1. (SBU) IMF ResRep briefed us late October 1 on the mission's first few days of talks in Ankara. Although the talks are going well, he cautioned that there is still much work to do, and it is too early to say whether the mission will be able to wrap things up during this visit, which ends October 10. He promised a further read-out on October 3, but warned that the team probably would not be able to make a meaningful assessment on progress until early next week.

2. (SBU) Initial talks have focused on direct tax reform, the Public Financial Management and Control bill, and issues related to the banking sector, particularly Imar Bank.

-- On direct tax reform, the mission is trying to convert the recommendations of a Fund technical advisory team into draft legislation, but continues to run into political resistance. Specifically, they still have to work around Prime Minister Erdogan's public commitment to maintain or even add to tax incentives in poor regions, as well as State Minister Tuzmen's strong opposition to phasing out tax breaks in economic free zones.

-- The IMF, World Bank, and the GOT are close to agreement on the Public Financial Management and Control bill, but it still needs to be finalized, sent to Parliament, and then approved by Parliament (which went back into session today).

-- Although there is no formal conditionality on this (because it was an unanticipated development), the Fund wants the GOT to take measures to address concerns arising from the Imar Bank scandal. Specifically, the Turks need to determine how they are going to cover depositors, manage the resulting increase in public debt, and deal with the blow to the credibility of both the BRSA and the Capital Markets Board. ResRep said the GOT has good ideas on these issues, but will need to see them put into practice by the time of the Board review.

3. (SBU) ResRep said the mission would discuss these issues late today with State Minister Babacan, who is expected to take proposals to Prime Minister Erdogan tomorrow. Fund staff hopes to have feedback by October 3. Meanwhile, they continue to work on other key issues, including:

-- SEE employment: The GOT definitely will miss the end-September target of reducing redundant state enterprise workers by 19,000; however, ResRep said Turkish officials are working on measures that could enable them to accelerate the process.

-- Legislation to strengthen BRSA's hand in court cases involving taken-over banks: The process leading to submission of legislation to Parliament has gone a bit astray, as Deputy Prime Minister Sener has referred it to Justice Minister Cicek for study and comment. ResRep said there "could be problems here that we hadn't anticipated."

-- Fiscal issues: ResRep expressed optimism that any budget gap for this year would be small -- less than 0.5 percent of GNP -- and easily managed. The bigger question is the 2004 budget, where the GOT will have to introduce new measures to take the place of one-off measures implemented to meet this year's primary surplus target. Although Turkish technocrats

say they expect to come to agreement with the Fund on the budget by the October 10 mission end-date, ResRep noted the possibility that the political leadership would choose to wait until after the October 12 AK party meeting to finalize the budget (which must be presented to Parliament by October 17).

14. (SBU) Comment: We will meet senior Treasury and State Planning Organization officials over the next two days to get the GOT take on developments, and will touch base with Fund staff again October 3 before sending in our assessment of progress.

EDELMAN